

New Zealand Weekly Data Wrap

22 July 2022



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See page 5.

Forecast updates

Recent ANZ NZ Forecast Updates can be found [here](#).

- [NZ CPI Q2 2022 and OCR call change](#)
- [NZ Property Focus: When, not if](#)
- [NZ Quarterly Economic Outlook: rebalancing act](#)
- [NZ Forecast Update: farmgate milk price forecasts revised down](#)

Our other recent publications are on [page 2](#).

What's the view?

- GDP constrained by supply more than demand
- Labour market tighter than ever, and very inflationary
- Inflation way above target, but may have peaked in Q2
- Aggressive OCR hikes towards 4.0% in November 2022 needed to contain inflation

Our forecasts are on [page 4](#).

Confused by acronyms or jargon? See a glossary [here](#).

Key risks to our view



Falling consumer and business sentiment derail momentum.



Falling house prices could have a more significant impact on the economy than expected.



Inflation expectations become unanchored, possibly as the labour market remains very tight.

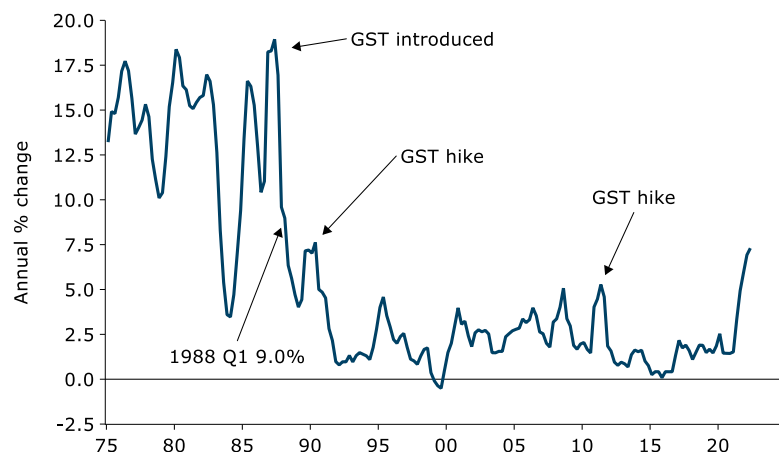


Global inflation pressures push inflation up more than expected in NZ over 2022.

What happened this week?

We learned this week that annual [CPI inflation in New Zealand](#) hit 7.3% in Q2 (figure 1) – higher than the RBNZ's May MPS forecast of 7.0%, and our own forecast of 7.1%. Excluding hikes to GST, CPI inflation is now the highest we've seen since Q1 1988, when it was 9%. It's worth noting that in the absence of the temporary fuel excise tax reduction (and other cost of living policies, including half-price public transport), the headline figure would likely have been close to 8%.

Figure 1. NZ CPI inflation



Source: Stats NZ, Macrobond, ANZ Research

The real news in this week's inflation data was the surge in non-tradables and core inflation measures. Non-tradables inflation rose to 6.3% y/y (vs 6.0% in Q1), ahead of the RBNZ's May forecast that it would ease to 5.7%. Non-tradables prices, which are just over 60% of the CPI, capture goods and services that do not face international competition. Hairdressing and personal grooming services are the quintessential examples – and the cost of this item in the CPI has increased 6.1% y/y. Excluding GST hikes, we haven't seen a stronger increase in this CPI item since 1989 (we also saw a 6.1% lift in 2006). When we see such strong inflation prints for these kinds of goods and services, it's clear that New Zealand has a serious home-grown domestic inflation problem that needs to be dealt with.

Equally concerning was the surge in core inflation measures. These aim to strip out volatile components of inflation (like petrol prices) to try to get at the underlying CPI inflation trend. Measures of core inflation now range between 4.8% and 6.1%, and have shown no signs of peaking. Even including 2010's GST hike, core inflation hasn't been stronger in the past 20 years for which we have reliable data.

These concerning CPI details have led us to revise up our OCR forecast. Previously, we expected one more 50bp hike in August, before a reversion to 25bp hikes. Now, we expect the RBNZ will lift the OCR by 50bps in August, October, and November – bringing the OCR to 4% by the end of the year (figure 6) (previously 3.5%). That's 375bps of OCR hikes in 13 months. Touch wood, these hikes will take the heat out of the domestic inflation pulse before long. We're reasonably confident that Q2 CPI was the top, but until the domestic inflation pressures start to fade definitively (and an ever-tighter labour market isn't helping), don't expect the RBNZ to let up.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- NZ Insight: the low consumer confidence puzzle
- NZ Property Focus: when, not if
- NZ Insight: He Waka Eke Noa recommendations
- Agri Insight: global food crisis to worsen
- NZ Property Focus: better fundamentals mean softer prices
- NZ Budget Review: Big Budget
- NZ Insight: Emissions Reduction Plan
- NZ Insight: new fiscal rules
- NZ Property Focus: regional rollercoaster
- NZ Insight: how widespread is labour market tightness?
- NZ Agri Focus: mixed blessings
- NZ Insight: the RBNZ's inflation expectations headache
- NZ Property Focus: A soft landing as headwinds gather
- NZ temp fuel tax changes knock 0.5% off Q2 CPI
- NZ Insight: how is NZ's agri sector impacted by the Russian invasion
- NZ Insight: The Reopening II – shifting economic sands
- NZ Agri Focus: heating up
- NZ Insight: Endemic COVID-19 and labour supply
- NZ Insight: The real cost of inflation

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ANZ Proprietary data

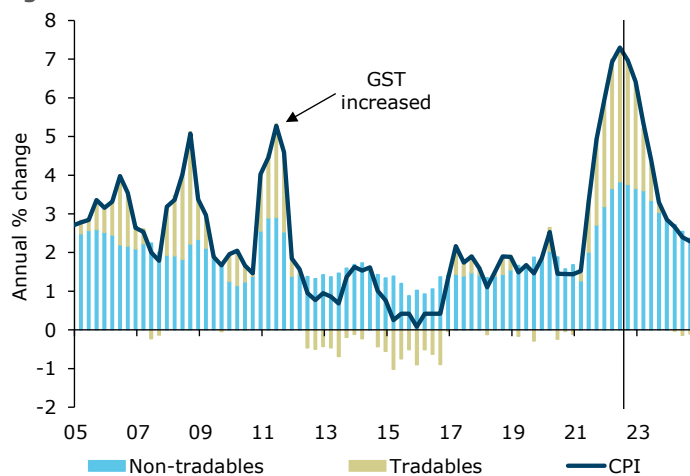
Check out our latest releases below.

- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index

What are watching?

With the Q2 inflation data under our belts, we've taken the opportunity to update our CPI inflation forecasts. It's looking like Q2 was, touch wood, the highest headline inflation print we'll see. Oil prices have come off their peaks, and key global commodity prices have fallen (although they remain historically elevated). Unfortunately, high inflation is likely to remain with us for some time yet – we're forecasting inflation will remain high at 7.0% in Q3, and won't fall below 3% until the end of next year (see [Economic Forecasts](#) for the numbers). As discussed above, momentum in domestic inflation has continued to build – and with the labour market likely to tighten a little further over 2022 (we'll get an update on that on 3 August), home-grown inflation pressures are likely to take several years to ease back to levels consistent with 2% CPI inflation (figure 2).

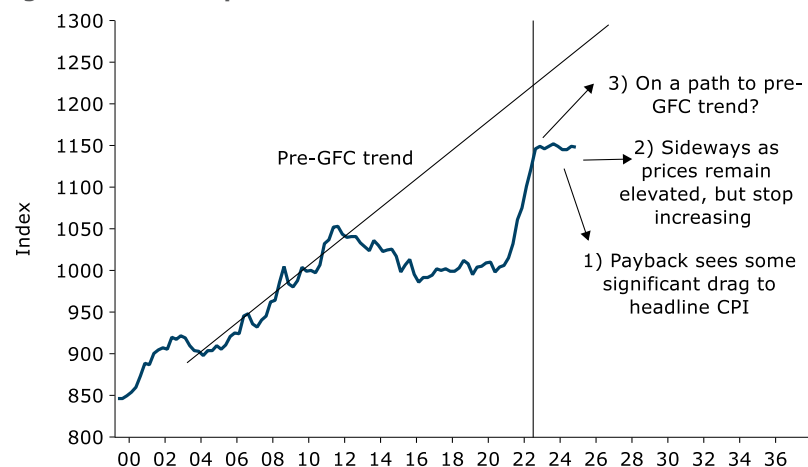
Figure 2. CPI inflation forecast



Source: Stats NZ, ANZ Research

One major uncertainty is what happens to global inflation pressures over the next decade – and how that impacts tradables inflation in New Zealand. Do we see a big drop in prices back towards pre-COVID levels as supply chains recover and central banks squeeze demand? Do prices stop rising, but remain elevated? Or have we seen a regime switch into a higher global inflation environment, where a move to more robust supply chains, more stimulatory government spending, and the ever-increasing cost of climate change continues to drive prices higher at a faster rate? As figure 3 shows, these three scenarios could have very different implications for imported inflation over the next few years. Our forecast balances the risk of scenarios 1 and 3.

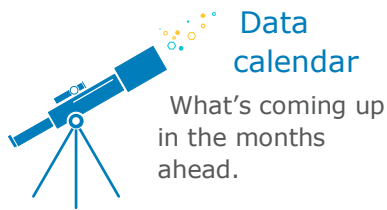
Figure 3. Tradable prices scenarios



Source: Stats NZ, Macrobond, ANZ Research



Financial markets update



Data calendar

What's coming up in the months ahead.

Date	Data/event
Thu 28 Jul (1:00pm)	ANZ Business Outlook – Jul
Fri 29 Jul (10:00am)	ANZ-RM Consumer Confidence – Jul
Fri 29 Jul (3:00pm)	RBNZ Sectoral Lending – Jun
Mon 1 Aug (10:45am)	Building Permits – Jun
Wed 3 Aug (early am)	GlobalDairyTrade auction
Wed 3 Aug (10:45am)	Labour Market – Q2
Wed 3 Aug (1:00pm)	ANZ Commodity Price Index – Jul
Mon 8 Aug (3:00pm)	RBNZ 2Yr Inflation Expectation – Q3
Tue 9 Aug (10:00am)	ANZ Truckometer – Jul
Tue 9 Aug (10:45am)	Electronic Card Transactions – Jul
Thu 11 Aug (10:45am)	Net Migration – Jun
Fri 12 Aug (10.30am)	BusinessNZ Manuf PMI – Jul
Fri 12 Aug (10:45am)	Food Price Index – Jul
Fri 12 Aug (10:45am)	Rental Price Index – Jul
Mon 15 Aug (10:30am)	Performance Services Index – Jul
Wed 17 Aug (early am)	GlobalDairyTrade auction
Wed 17 Aug (2:00pm)	RBNZ Monetary Policy Statement
Fri 19 Aug (10:45am)	Merchandise Trade – Jul
Thu 25 Aug (10:45am)	Retail Sales – Q2
Fri 26 Aug (10:00am)	ANZ-RM Consumer Confidence – Aug
Wed 31 Aug (10:45am)	Building Permits – Jul
Wed 31 Aug (1:00pm)	ANZ Business Outlook – Aug
Wed 31 Aug (3:00pm)	RBNZ Sectoral Lending – Jul
Fri 2 Sep (10:45am)	Terms of Trade – Q2
Mon 5 Sep (10:45am)	Building Work Put in Place – Q2
Mon 5 Sep (1:00pm)	ANZ Commodity Price Index – Aug
Wed 7 Sep (early am)	GlobalDairyTrade auction

Interest rate markets

Despite the stronger CPI data on Monday, market pricing for the August MPS decision isn't all that different to where we started the week: 61bps were priced in on Monday ahead of the CPI, and 59bps are priced at the time of writing. To be fair, the adjustment to the stronger CPI data happened last week as updated forecasts started rolling in. Stepping back, it's hard to argue with the signal from markets that a 75bp hike in August is more likely than 25bps. Indeed, another positive surprise in the labour market statistics for Q2 (out August 3) could end up being the catalyst. At the longer end, the week has been dominated by the ebbs and flows of risk appetite, with the US 10-year yield picking up a 3-handle, dropping it, picking it up again, only to fall back to 2.90% after US data disappointed overnight. Rate-market gyrations between inflation fears and hard-landing fears look set to continue, and nowhere are they more pronounced than in Europe, given the energy shock they are experiencing. This week, the ECB finally joined the hiking camp, choosing a 50bp hike despite earlier suggesting a 25bp was on the cards. With euro area inflation running at 8.6% it's not hard to see why. The Bank of Japan now stands alone in its insistence on ongoing maximum monetary stimulus.

FX markets

Broad USD strength lost a little bit of its shine this week, with the DXY slipping around 1% as risk appetite generally improved. However, volatility is the market's middle name right now, so we're certainly not prepared to put a stake in the ground and call this the beginning of a trend in broader risk sentiment. Meanwhile, ski-slope operators will be happy to see the NZD losing a bit of ground to AUD over the week, but with 0.90 looking like a firm, and psychological, support level, there may not be much more fuel in the tank for it to go lower without some serious domestic economy surprises (on either side of the Tasman). Put it all together, and to the relief of the RBNZ (but not dairy farmers who saw prices down 5% at the auction platform this week), the NZD/USD is around 1.8% higher over the week. On a trade-weighted basis, the NZD lifted about 0.6%, but at 71.05 at the time of writing, it's still shy of the RBNZ's May MPS forecast of 71.8.

Key data summary

Performance of Services Index - June. In contrast to the PMI, the PSI remained convincingly expansionary at 55.4 (55.3 previously), and new orders are holding up very well at 61.7 (62.0 previous).

CPI – Q2. Increased to 7.3% y/y (6.9% previously). See our [review](#).

GlobalDairyTrade auction. Prices fell 5% at the latest GDT event, after a 4% fall previously. All dairy commodities fell in price at the auction.

Overseas Merchandise Trade – June. The annual merchandise trade deficit grew to NZD10.5bn in June, from NZD9.5bn previously.

The week ahead

ANZ Business Outlook – July (Thursday 28 July, 1:00pm).

ANZ Roy Morgan Consumer Confidence – July (Friday 29 July, 10:00am).

RBNZ sectoral lending data – Jun (Friday 29 July, 3:00pm). Housing lending growth has slowed as the heat comes out of the market – but business lending is growing faster than at any time since before the GFC.



Key forecasts and rates

	Actual			Forecast (end month)					
	May-22	Jun-22	Today	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
FX rates									
NZD/USD	0.652	0.621	0.624	0.650	0.660	0.660	0.660	0.650	0.650
NZD/AUD	0.907	0.904	0.902	0.890	0.880	0.868	0.868	0.867	0.867
NZD/EUR	0.609	0.597	0.611	0.619	0.600	0.589	0.584	0.570	0.560
NZD/JPY	83.4	84.7	85.8	84.5	84.5	83.8	83.2	81.3	79.3
NZD/GBP	0.517	0.513	0.521	0.537	0.537	0.532	0.524	0.512	0.508
NZ\$ TWI	72.3	70.5	71.2	71.9	71.9	71.3	70.9	69.7	69.3
Interest rates									
NZ OCR	2.00	2.00	2.50	3.00	4.00	4.00	4.00	4.00	4.00
NZ 90 day bill	2.47	2.86	3.16	3.93	4.10	4.10	4.10	4.10	4.10
NZ 2-yr swap	3.92	4.06	4.11	4.37	4.21	3.99	3.93	3.82	3.76
NZ 10-yr bond	3.61	3.86	3.74	4.25	4.00	4.00	3.75	3.75	3.75

Economic forecasts

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
GDP (% qoq)	-0.2	1.4	0.5	0.9	0.6	0.0	0.2	0.2	0.5
GDP (% yoy)	1.2	0.3	4.8	2.7	3.4	2.0	1.7	1.0	0.9
CPI (% qoq)	1.8	1.7	1.9	0.9	0.7	0.7	0.8	0.5	0.6
CPI (% yoy)	6.9	7.3	7.0	6.4	5.3	4.4	3.3	2.8	2.7
Employment (% qoq)	0.1	0.6	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Employment (% yoy)	2.8	2.5	1.0	1.3	1.6	1.3	1.3	1.3	1.2
Unemployment Rate (% sa)	3.2	2.9	2.9	2.9	3.0	3.2	3.3	3.4	3.5

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 4. Production GDP

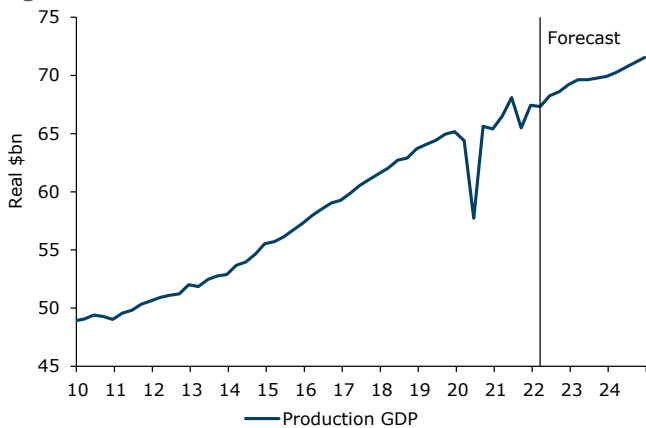


Figure 5. CPI inflation components

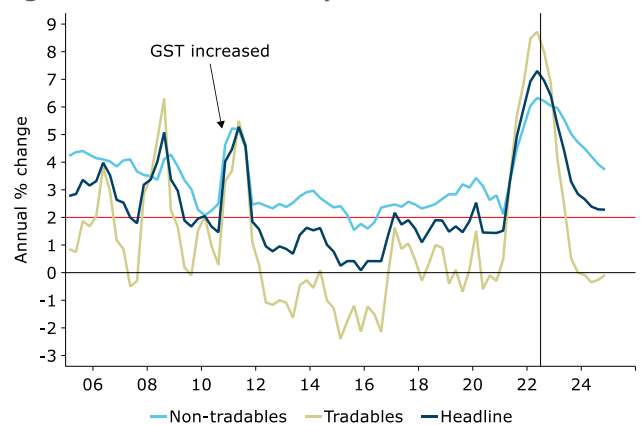


Figure 6. ANZ OCR forecast

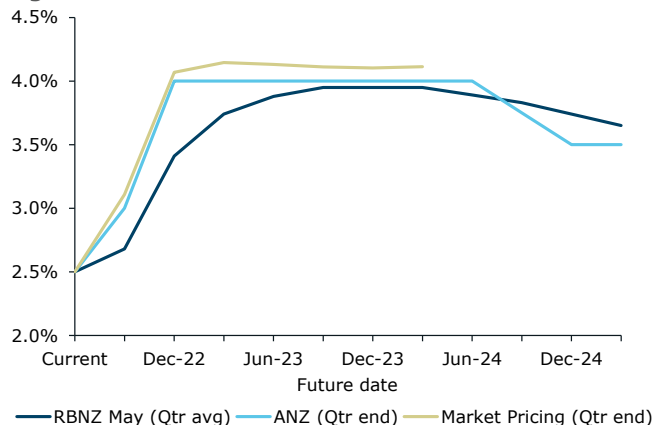
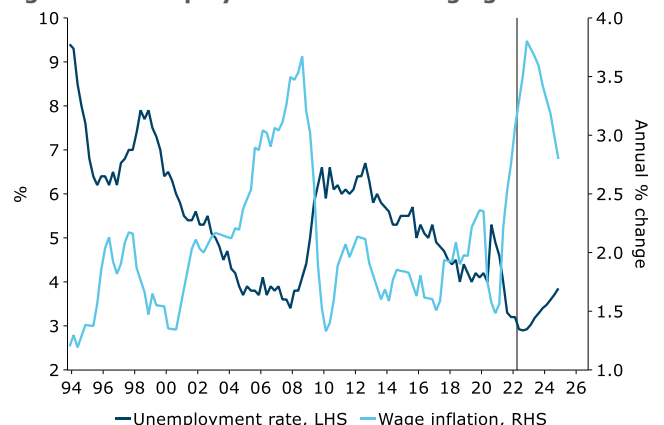


Figure 7. Unemployment rate and wage growth



Source: Stats NZ, Bloomberg, RBNZ, Macrobond, ANZ Research



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